

**REPORT OF THE AUDIT OF THE
FORMER ROWAN COUNTY
SHERIFF**

**For The Period December 1, 2002
Through January 5, 2003**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROWAN COUNTY SHERIFF

**For The Period December 1, 2002
Through January 5, 2003**

The Auditor of Public Accounts has completed the former Rowan County Sheriff's audit for the period December 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Rowan County Sheriff's office generated operating receipts of \$49,542 and had operating disbursements of \$28,504 for the period December 1, 2002 through January 5, 2003. After paying the Sheriff's statutory maximum of \$5,003, excess fees were \$16,035.

Report Comments:

- The Former Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff should require depository institutions to pledge or provide sufficient collateral to protect deposits.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Rebecca Carter, Former Rowan County Sheriff
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Rowan County, Kentucky, for the period December 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period December 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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Honorable Clyde A. Thomas, County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 27, 2003

ROWAN COUNTY
 REBECCA CARTER, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period December 1, 2002 Through January 5, 2003

Receipts

Federal Grants	\$	5,574
State - Kentucky Law Enforcement Foundation Program Fund		5,356
State Fees For Services: Finance and Administration Cabinet		1,324
Circuit Court Clerk: Sheriff Security Service		3,595
Fiscal Court		8,504
County Clerk - Delinquent Taxes		133
Commission On Taxes Collected		23,463
Fees Collected For Services:		
Auto Inspections	\$	390
Serving Papers	<u>950</u>	1,340
Other:		
Carrying Concealed Deadly Weapon Permits		240
Interest Earned		<u>13</u>
Total Receipts	\$	<u>49,542</u>

The accompanying notes are an integral part of this financial statement.

Operating Disbursements:

Deputies' Salaries	\$ 14,174
Other Salaries	2,943
Employee Benefits-	
Employer's Share Social Security	2,112
Contracted Services-	
Professional Services	691
Vehicle Maintenance and Repairs	3,572
Materials and Supplies-	
Office Materials and Supplies	736
Uniforms	132
Other Charges-	
Cell Phone, Radio, and Pager	291
Computer Software	60
Conventions and Travel	1,260
Dues	40
Paper Service to Fiscal Court	320
Miscellaneous	1,149

Vehicle Payments	1,024
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Less: Statutory Maximum	5,003
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August 19, 2003	<u>856</u>	<u>16,035</u>
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Balance Due at Completion of Audit	\$	0
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The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the period. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

ROWAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 5, 2003
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$410,897 of public funds uninsured and unsecured.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	3,000,000
Uncollateralized and uninsured	<u>410,897</u>
Total	<u><u>\$ 3,510,897</u></u>

Note 4. Notes Payable

- A. The Office of the County Sheriff is liable for a note payable to the Peoples Bank in the original amount of \$8,114 at an interest rate of 8.75%. The note was for the purchase of a 1998 Mercury Grand Marquis. The note requires 36 monthly payments in the amount of \$257 to be paid in full on February 1, 2005. As of January 5, 2003, the principal balance was \$6,067.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 4. Notes Payable (Continued)

- B. The Office of the County Sheriff is liable for a note payable to U.S. Bank in the original amount of \$13,155 at an interest rate of 4.99%. The note was for the purchase of a 1999 Chevy Blazer. The note requires 48 monthly payments in the amount of \$304 to be paid in full on November 19, 2006. As of January 5, 2003, the principal balance was \$12,940.

Note 5. Capital Lease

On November 5, 2002, the Rowan County Sheriff's office entered into a lease agreement with U.S. Bank for a 2003 Dodge Durango. The terms of the agreement require 48 monthly payments of \$569. As of January 5, 2003, the balance outstanding was \$26,748.

Note 6. Operating Lease

On April 26, 2001, the Rowan County Sheriff's office entered into a \$19,613 lease agreement with General Motors Acceptance Corporation for a 2000 Chevy Blazer. The terms of the agreement require 48 monthly payments of \$463. As of January 5, 2003, the balance outstanding was \$12,491.

Note 7. Federal Grant

On December 27, 2001, the Sheriff's office was awarded a Domestic Violence Enforcement Grant in the amount of \$31,195. The balance at December 1, 2002, was \$11,836. The Sheriff spent funds totaling \$5,574 during the period, leaving a balance of \$6,262 at January 5, 2003.

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COMMENTS AND RECOMMENDATIONS

ROWAN COUNTY
REBECCA CARTER, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period December 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 9, 2002, \$410,897 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Former County Sheriff's Response:

We will go to the bank and take care of this.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's office internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility for recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's office ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and receipts and disbursements ledgers by Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by employee and distributes checks to employees
- The Sheriff, for proper documentation, examines all other disbursement checks prepared by employee
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares the bank reconciliation

Former County Sheriff's Response:

I will make an effort to do this.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

ROWAN COUNTY
REBECCA CARTER, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period December 1, 2002 Through January 5, 2003
(Continued)

PRIOR YEAR:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Rowan County Sheriff for the period December 1, 2002 through January 5, 2003, and have issued our report thereon dated August 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Rowan County Sheriff's financial statement for the period December 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 27, 2003

